What RIJ Learned In 2024, and Expects in 2025

By Kerry Pechter *Fri, Jan 3, 2025*

In 2025, Retirement Income Journal will be following new developments in the 'Bermuda Triangle' and in the ongoing push to embed annuities and other income-generating tools in 401(k) plans.

After an 18-month break, *RIJ* resumed publication in February 2024 with two goals: To inform readers about early-stage efforts to distribute annuities through 401(k) plans and, equally, to track the relatively mature “Bermuda Triangle strategy” with which private equity firms have disrupted the life/annuity business.

There was a lot to learn. The 401(k)/annuity trend is complicated because so many different products and proposals are in play. The Bermuda Triangle strategy is mysterious because the magic happens offshore or in private. There will be more to learn and write about in 2025.

Progress toward the incorporation of annuities into 401(k)s is likely to remain tortoise-slow in 2025, even if the fractured Congress passes a SECURE 3.0 bill. It’s been that way for at least 15 years.

As for the Bermuda Triangle strategy, tighter regulation might slow it down this year but won’t stop it. The payoff from high-yield investing and “funded” reinsurance are too great.

A few aspects of 401(k) annuities that I learned about in 2024:

First, the addition of annuities to (or alongside) 401(k) plans has real urgency for mutual fund families that don’t have their own 401(k) plan businesses, and for some life/annuity companies. Fair enough. But annuities are less urgent for 401(k) plan sponsors, plan advisors, or participants.

The SECURE Acts didn’t change that. Second, the Acts didn’t discriminate between the types of annuities that plans can adopt. There are big differences between annuity types. That steepens the learning curve for plan sponsors.

With respect to regulations, annuities aren’t a natural fit for 401(k)s. While the law requires investments in 401(k) accounts to be liquid in certain ways, annuities deliver more bang for the buck (through tax-deferral, mortality credits, and uninterrupted accumulation) when the underlying assets are *illiquid*.

Then there's the under-appreciated education factor. To make meaningful use of the annuities in their plans, plan participants will need to learn more about retirement income planning. It's not clear who will teach them, what the curriculum should be, or who will pay for it. No off-the-shelf playbook exists for that.

So far, no one has said much about integrating Social Security and 401(k) annuities. There's a foreseeable conflict between payroll tax hikes, which Social Security reform may soon require, and automatic-escalation of 401(k) contributions, without which demand for 401(k) annuities might never reach critical-mass.

What I learned about the Bermuda Triangle in 2024:

Over the past 10 years, private equity giants like Apollo, KKR, Blackstone and others have remade the life/annuity business in their own image—changing it from a slow-moving, spread-based, capital-intensive business to a nimble, fee-based, "capital light" business. That's a sea change.

A traditional life insurer bought "biometric" risks (dying too soon or living too long) from individuals through the sale of life insurance and annuities. It held that risk for long periods, using the law of large numbers, risk pooling, surplus capital buffers, hedging strategies, asset/liability matching, and purchases of low-risk corporate bonds to neutralize it. It tried to earn more on its investments than it owed to policyholders and contract owners.

That model is going the way of the Oldsmobile and VHS. Today, asset managers (private equity or private credit specialists) buy or partner with life/annuity companies in order to capture revenue, mainly through the sale of fixed deferred annuities, that will enlarge their assets-under-management and earn them more fees.

To reduce the amount of capital necessary to support the guarantees associated with the sale of those fixed deferred annuities, the life/annuity company sends the risk (but not necessarily the assets) to a reinsurer it owns in Bermuda or the Cayman Islands—which third-party institutional investors can help capitalize. That's my working definition of the "Bermuda Triangle;" it's open to many possible variations.

If you work for or own stock in a private equity-led life/annuity company, this is a more efficient, more profitable mousetrap than traditional insurance, with more capacity for growth. If you're a Baby Boomer more focused on the safe growth of your savings than worried about how long you'll live, it is—or can be, depending on whose fixed deferred annuities you buy—a pretty good deal as well.

If you're one of the official watchdogs paid to worry about the stability of the global financial system, you may not be as pleased. They remember the 2008 financial crisis, when banks originated mortgages and distributed them to firms that bundled and securitized them and sold them to investors.

Since the banks didn't retain the risk, they emphasized loan volume over loan quality—with tragic results. The Bermuda Triangle strategy reminds some federal and international insurance regulators of the events leading up to the mortgage crisis.

But federal and international bodies don't regulate life/annuity companies in the U.S. That's done by the state insurance commissioners who comprise the National Association of Insurance Commissioners (NAIC) and the leadership of the Bermuda Monetary Authority (BMA). To the extent that they benefit from the Bermuda Triangle trend, they have little incentive to spoil the party.

Does danger lurk in the Bermuda Triangle? Last month, the Utah insurance regulator order Sentinel Security Life of Utah was ordered to stop selling annuities; it is part of a triangular strategy involving Advantage Capital Partners of Utah and several reinsurers. PHL Variable, an insurer owned by Nassau, an insurer owned by Golden Gate Capital, was put in rehabilitation by Connecticut regulators. No large Bermuda Triangle practitioners have failed.

In 2025, both the NAIC and the BMA are expected to roll out new guidelines or regulations that might be strong enough to placate critics of the Bermuda Triangle strategy without slowing down the strategy's growth, its profitability or its benefits for jurisdictions where the companies are headquartered. We'll follow the money.